GUIDELINES FOR THE APPOINTMENT OF PUBLIC BODY AUDITORS

Province of British Columbia
Ministry of Finance and Corporate Relations

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PART 1 - APPLICATION OF THE GUIDELINES

1.1 AUTHORITY TO DESIGNATE

Section 6.1 of the Financial Administration Act empowers the Minister of Finance and Corporate Relations to designate public bodies which require his approval prior to the appointment of an auditor. The Minister of Finance and Corporate Relations reviews the list of public bodies from time to time and may designate any public body except those where another enactment names the Auditor General or empowers the Lieutenant Governor in Council to appoint a person as auditor of the public body. The section of the Financial Administration Act relating to public bodies is shown below.

1.2 FINANCIAL ADMINISTRATION ACT - SECTION 6.1

MINISTER'S APPROVAL REQUIRED

6.1 (1) In this section "public body" means
(a) a government corporation, and
(b) any other board, commission, council or other body of persons, whether or not incorporated, all the members of which or all the members of the board of management or board of directors of which are appointed by an Act, an order of the Lieutenant Governor in Council or a minister of the Crown.

(2) Notwithstanding any other Act, but subject to subsection (3), no public body designated by the Minister of Finance shall retain, contract with or employ an auditor in that capacity without the prior approval of the Minister of Finance or a person designated by him.

(3) Subsection (2) does not apply where another enactment
(a) names the Auditor General, or
(b) empowers the Lieutenant Governor in Council to appoint a person as auditor for the public body.

1985-51-21, effective July 4, 1986 (B.C. Reg. 155/86)

1.3 APPLICATION OF THE GUIDELINES

In order to provide uniformity in the process of selecting and approving auditors, these "Guidelines for the Appointment of Public Body Auditors" shall be followed by public bodies designated by the Minister of Finance and Corporate Relations as being subject to Section 6.1 of the Financial Administration Act.

These amended Guidelines are effective April 1, 1990.

PART 2 - TYPES AND MANDATE OF AUDITS TO BE CONDUCTED

2.1 GENERAL

The work to be performed should be clearly established in the Request for Proposals for each audit. Each public body audit committee or board of directors should determine its requirements for any examination of the entity both for the attest audit and for any type of audit in addition to the attest audit.

2.2 ATTEST AUDITS

2.2.1 Attest audits should be conducted in accordance with Generally Accepted Auditing Standards.

2.2.2 All attest audit reports should express an opinion as to whether the financial statements present fairly the financial position, results of operations and changes in financial position in accordance with an appropriate disclosed basis of accounting, which, except in special circumstances, should be Generally Accepted Accounting Principles. The report should provide adequate explanation with respect to any reservation contained in such opinion. The report should also indicate whether the application of the disclosed basis of accounting is consistent with that of the preceding period. Where the basis or its application is not consistent, the report should provide adequate explanation of the nature and effect of the inconsistency.

2.3 LEGISLATIVE AUTHORITIES AUDITS

The following may or should, depending upon the legislation, be added to the basic attest audit:

- a statement or opinion as to whether legislative authorities have been complied with;
- a statement or opinion as to whether funds have been spent for the purposes specified; and
- any other matters relating to the manner in which the public body was fulfilling its mandate.

2.4 COMPREHENSIVE AUDITS

A comprehensive audit of the public body, or part of it, may be requested that combines, in addition to the opinions sought in the attest and legislative authorities audit, an assessment as to whether value has been received for funds spent. This entails a review of key management activities and an assessment of related systems and controls to ensure due regard for economy, efficiency and effectiveness.

2.5 OTHER MATTERS

Other matters of concern may be included in the requested audit that do not fit into the audit type classification. These matters should be clearly defined in each Request for Proposal.

PART 3 - PROCESS FOR SELECTING AN AUDITOR

3.1 AUDITOR QUALIFICATIONS

Selection of an auditor should be made through an impartial, competitive process open to an auditor who is invited to participate and who is:

- a member in good standing, or a partnership whose partners are members in good standing, of the Canadian Institute of Chartered Accountants licensed by the Institute of Chartered Accountants of British Columbia to perform audits in B.C., or the Certified General Accountants' Association of British Columbia registered to engage in public practice; or

- a person who is certified by the Auditor Certification Board established pursuant to Section 205 of the Company Act.

3.2 INFORMATION TO BE PROVIDED TO AUDIT FIRMS

Requests for Proposals issued for the audit of public bodies should contain sufficient information to allow an audit firm to make a detailed proposal. In addition to the information provided, a firm should be given reasonable access to the public body's management for the purposes of completing its proposal. The information to be provided to the prospective bidders should include:

- the type and scope of the audit to be performed (see Section 2);

- notification that the appointment of the auditor is subject to the approval of the Minister of Finance and Corporate Relations;

- the length of term for which approval is being sought (annual appointments may be for a term not exceeding five fiscal years);

- a description of the entity, the nature of its operations, reference to the enabling statute and any unique regulatory or auditing requirements and contentious issues;

- a description of government interrelationships and the requirements for consolidation of subsidiaries and funded agencies;

- an organization chart, the location of central and branch accounting offices and the number of employees;

- the most recent year end financial statements or financial report;

- a description of the significant assets and liabilities;

3.2 INFORMATION TO BE PROVIDED TO AUDIT FIRMS (continued)

- the financial magnitude of the audit entity in terms of the number of transactions and source documents processed, the quantity, value and location of inventory and the number and value of accounts receivable and payable;
- a general description of the accounting systems in operation including the availability of manuals, policies, procedures and systems documentation, identification of manual and computerized systems, computer hardware, operating systems and software in use;
- identification of key individuals responsible for financial or other functions to be audited;
- whether an internal audit group exists and a description of reports issued during the year;
- a description of related work which will be performed by the staff of the public body;
- timing requirements for report(s) and distribution;
- proposal deadline and opening times, dates and locations; and
- notification that the lowest fee proposal will not necessarily be accepted.

3.3 PROPOSAL ADMINISTRATION

Consideration should be given by the public body to holding a proposal conference to answer questions or clarify matters arising from the Request for Proposals.

Proposals received are confidential. Proposals received should be controlled and not opened until after the submission deadline. Proposals may be withdrawn or amended by the bidder prior to closing, but must not be amended in any way after the closing time.

All proposals received remain confidential even after evaluation. All proposals, including unsuccessful proposals, should be securely retained after evaluation and award.

3.4 CONFLICT OF INTEREST

The bidder should include in the proposal documents a statement confirming that no services will be performed by the bidder that may prejudice the independence implicit in the audit engagement for the public body or be in conflict of interest under any governing code of professional ethics.

3.5 SELECTION CRITERIA

Selection of the candidate for appointment as auditor will be based on criteria specifically addressed in the proposal. The criteria should include:

- the experience and current capabilities of the firm, its partners, managers and staff in the audit of organizations similar to the public body to be audited, as well as that of additional staff required by the firm to carry out the audit;
- the firm's experience in the audit of public sector organizations including government corporations and other public bodies;
- the firm's experience in performing both legislative authority and comprehensive audits in the public sector;
- the availability of specialized services that may be necessary in the successful audit of the public body;
- the preliminary audit plan;
- the depth of the perceived audit needs as expressed by the firm in its proposal;
- a time budget; and
- the firm's estimated total hours, out-of-pocket expenses and the resulting all-inclusive maximum cost for which the requested work will be performed for each year of the term of the approval. These amounts should be contained in a separate letter of transmittal accompanying the proposal.

PART 4 - REPORTS

4.1 REPORTING GUIDELINES

Auditors should:

- prepare reports in accordance with Generally Accepted Auditing Standards;
- discuss reports with the public body's management and audit committee or board of directors prior to distribution;
- provide a management letter that identifies areas of concern or weaknesses encountered in the examination of the public body, recommendations for improvement and management's response to the concerns raised; and
- meet any statutory reporting requirements such as timing and distribution where the report is needed for inclusion in the Public Accounts of the Province, or must be submitted to the responsible minister.

4.2 REPORT TO THE MINISTER OF FINANCE AND CORPORATE RELATIONS

The Minister of Finance and Corporate Relations may request a copy of the auditor's report and the audited financial statements.

PART 5 - REMUNERATION

5.1 REMUNERATION GUIDELINES

Remuneration should be calculated as follows:

- the hours worked at the rates quoted in both the letters of transmittal and engagement;
- the out-of-pocket costs as agreed to in both the letters of transmittal and engagement;
- in no case should the total remuneration for each fiscal year exceed the all-inclusive maximum cost as agreed to in both the letters of transmittal and engagement as amended by any approved changes; and
- any changes to the purpose of the audit or inclusion of additional work should be agreed to, in writing, by the auditor and the public body as to remuneration before any such work is commenced.

PART 6 - TERMS AND CONDITIONS OF APPROVAL

6.1 GENERAL

6.1.1 Approval by the Minister of Finance and Corporate Relations for the annual appointment of the auditor will not exceed a term of five fiscal years. Please refer to Section 7.2 for documentation required to support a submission to the Minister.

6.1.2 Upon application to the Minister of Finance and Corporate Relations, the existing ministerial approvals, granted between July 3, 1986 and March 31, 1990, for three year terms, may be extended for two years (total five years) without public tender. Please refer to Section 7.2 for documentation required to support submissions for ministerial approval under this transitional provision. The public body retains the option to invite tenders at the end of the currently approved three year term which commenced between July 3, 1986 and March 31, 1990.

6.1.3 Thereafter, designated public bodies are to seek competitive proposals for the appointment of auditors in accordance with these Guidelines. Ministerial approval will be given for a term not exceeding five years, with appointment to be made annually by the respective boards of the public bodies during the five year term based on satisfactory performance by the auditor.

6.1.4 Designated public bodies may appoint the same auditor for no more than two consecutive five year terms, effective July 3, 1986, unless the Minister grants an exemption to this limitation upon application by the public body. Each term of appointment is subject to public tendering. Please see Section 7.2 for documentation required to support submissions for exemption from the ten year limitation.

6.1.5 When a public body either wishes to remove the auditor at any time, or is not prepared to re-appoint the auditor within the approved term, the Minister of Finance and Corporate Relations is to be informed and will give direction as to the action to be taken.

6.2 ACCESS TO INFORMATION

Upon appointment, an auditor should be given the necessary access to information within the public body and other government entities consistent with the purpose of the audit to be performed.

6.3 RELATIONSHIP WITH THE AUDITOR GENERAL

6.3.1 Public body auditors should be informed that the Auditor General has statutory powers of access to all financial statements and reports, working papers, and other documents prepared by the auditor of a public body.

6.3.2 Auditors of public bodies should provide every professional courtesy with respect to any audit or special examination of the public body being conducted by the Auditor General.

PART 7 - PROCEDURES FOR OBTAINING APPROVAL OF PUBLIC BODY AUDITORS

7.1 PROCEDURES

The following procedures are to be followed by the audit committee or board of directors of public bodies when seeking ministerial approval of auditors:

- issue Requests for Proposals to several audit firms;
- evaluate proposals received;
- recommend up to three prospective auditors which are viewed as best meeting the criteria established in Section 3.5 and list them in order of preference;
- state the length of term for approval of the auditor which is being sought (annual appointments to a maximum term of five fiscal years); and,
- support the recommendations with the information required in Section 7.2 of these Guidelines.

The Minister of Finance and Corporate Relations will review the submission and advise the public body of his approval. If the Minister does not approve the recommended auditor, an alternate recommendation may be made to the public body, with reasons. The public body will formalize the appointment of the auditor.

7.2 SUBMISSION FOR MINISTERIAL APPROVAL

7.2.1 This section details the documentation required to support submissions for ministerial approval of the appointment of auditors. Please see Section 6.1 of these Guidelines for the terms and conditions of ministerial approval.

7.2.2 Supporting Documentation

For New Appointments:

1. A list of the firms that were invited to submit proposals.
2. A copy of the Request for Proposals.
3. A copy of all proposal documents received.
4. A copy of the public body's evaluation of the proposals received.
5. The names of short listed firms in order of preference.
6. Details of other work done for the public body by the recommended auditors.
7. A list of subsidiaries and agencies funded by the public body, the names of the auditor(s) involved and the dates when the audits were performed.

For Extension Of Appointment From Three Years To Five Years:

1. A letter to the Minister of Finance and Corporate Relations providing assurance that the incumbent auditor has performed satisfactorily; and
2. The incumbent auditor's proposal respecting fees, which is satisfactory to the public body, for approval by the minister.

For Exemption From The Ten Year Limitation:

1. All documentation required in the first section "For New Appointments".
2. A letter setting out reasons why an exemption from the ten year limitation is requested.

7.2.3 Submissions for the approval of public body auditors should be addressed to:

Minister of Finance and Corporate Relations
Parliament Buildings
Victoria, B.C.
V8V 1X4

7.2.4 Recommendations for the appointment of the auditor must be received by the Minister of Finance and Corporate Relations sixty days prior to the date upon which formal appointment is to be made.